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Mr. Stephen Conforti
Chief Financial Officer and Treasurer
City of Toronto
100 Queen St W,
Toronto, ON M5H 2N2

November 16, 2023

Dear Mr. Conforti,

In planning and performing our audit of the consolidated financial statements of The City of Toronto ("the Entity") for the period ended December 31, 2022, we obtained an understanding of internal control over financial reporting (ICFR) relevant to the Entity's preparation and fair presentation of the financial statements. This understanding was obtained to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR. Accordingly, we do not express an opinion on the effectiveness of the Entity's ICFR. We reported the results of our audit of the consolidated financial statements of the Entity to the Audit Committee on July 7, 2023.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies or other control deficiencies have been identified. As a result, any matters reported below are limited to those deficiencies in ICFR that we identified during the audit. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

Refer to the Appendix for the description of various control deficiencies.

Significant Deficiencies

As reported in our Audit Findings Report presented to the Audit Committee on July 7, 2023, we did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Other control deficiencies

As we performed our audit, we identified control deficiencies that we determined to be other control deficiencies in ICFR that, in our professional judgment, are of sufficient importance to merit management's attention. See the Appendix for a listing of our audit observations relating to the control deficiencies that were identified from the audit of fiscal year ended December 31, 2022.

Management's responses

Management's responses have not been subjected to the audit procedures applied in the audit, and accordingly, we express no opinion on them.

Use of letter

This letter is issued annually (as applicable) for use by management in carrying out and discharging their responsibilities. This letter should not be used for any other purpose or by anyone other than management, auditor general and audit committee.

KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

KPMG LLP

Licensed Public Accountants
cc: Auditor General

Appendix – Control Deficiencies from the audit of fiscal year ended December 31, 2022

The following control deficiencies are newly identified deficiencies by KPMG during the audit of fiscal year ended December 31, 2022 and were shared and discussed with management, during and subsequent to the 2022 audit.

1. Tangible Capital Assets – Disposals

Observation:

It was noted that certain disposals of tangible capital assets were incorrectly recorded in the wrong fiscal year due to the timing of the receipt of the proceeds on disposal. Where the proceeds of the disposal were not received until the following fiscal year but the asset was disposed of and no longer in use, the disposal was not recorded until the period in which the proceeds were received.

Impact:

Due to the lack of understanding by divisional staff relating to the appropriate timing of the recognition of disposal of tangible capital assets, it increases the risk of inaccurate financial reporting by the City.

Recommendation:

The City should consider educating those employees with the ability to initiate the recording of asset disposals on the appropriate accounting treatment of such transactions. The City could also implement additional training sessions to increase knowledge at the divisional level about the financial reporting framework and expectations under the accrual basis of accounting. The City should ensure that each division understands and has a clear policy to reflect the accrual-based approach for recording asset disposals. Clearly define the criteria for when an asset is considered disposed of, emphasizing the point at which ownership is relinquished and control is transferred to another party.

Management's response:

Management acknowledges and agrees with this recommendation. The Corporate Real Estate Management Division staff will leverage corporate training and guidance to mitigate the risk of incorrect entries of any future transactions within its accounts related to capital asset disposals. The Divisional staff will follow the corporate policy and procedures as it relates to accrual-based accounting and the recording of asset disposals.

Accounting Services Division (ASD) is transforming into the City's Accounting Centre of Excellence, responsible for accounting policy and training, in addition to advice that ensures that the City's financial and non-financial transactions are reflected based on public sector accounting standards (PSAS) in the City's general ledger and financial statements. This transformation is well underway, with the internal reorganization of ASD teams and the establishment of the Accounting Policy and Advisory Services (APAS) and Tangible Capital Asset (TCA) sections.

ASD will continue to enhance instruction and training for divisions and trusts that Divisions will ensure that the appropriate staff are trained and that they follow instruction provided by ASD as part of policy or the year end financial reporting process.

2. Tangible Capital Assets – Land Acquisition Costs

Observation:

During the audit, the City's financial reporting team identified through year end variance analysis and discussion with the Corporate Real Estate Management division that certain acquisitions of land were incorrectly expensed instead of being capitalized as tangible capital assets.

Impact:

Expensing items of a capital nature incorrectly results in inaccurate financial reporting and additional work by the financial reporting team to correct the error once identified.

Recommendation:

It is recommended that the division responsible is provided training to ensure they understand the criteria for capitalizing assets, including land acquisitions as these errors impact the financial reporting issued by the City.

Management's response:

Management acknowledges and agrees with this recommendation. The Corporate Real Estate Management Division will follow the corporate criteria, guidelines, and procedures for capitalizing assets, and will ensure staff leverage any corporate training available in this regard.

Accounting Services Division will continue to enhance and provide training and accounting advice to all divisional staff involved in the accounting and financial reporting process and trust that divisions will ensure that staff with the appropriate knowledge, skills and abilities attend this training and execute accounting transactions based on the City's accounting policies and processes.

3. IT Security – Access Deprovisioning

Observation:

Based on the performance of our audit procedures, it was noted that access to systems was not always revoked in a timely manner and that in certain instances, users logged into systems post their termination date.

Impact:

Users have access outside of which is necessary to complete their job role and responsibilities; and failure to timely remove user access after their termination can result in unauthorized access to City of Toronto's systems and financial information.

Recommendation:

The City of Toronto should consider implementing a system or an automated workflow by integrating divisional business process with HR, payroll and pension departments, which triggers access revocation to IT applications and resources. This can ensure the access of terminated employees is revoked in a timely manner. This may include effective communication on the timeliness requirements in access revocation process to all employees and managers.

Management's response:

Management acknowledges and agrees with this recommendation. Active Directory is used to deactivate Network ID for terminated/ retired staff. TSD is working to reduce the time to react to the trigger and reduce the turnaround time. The Directory Transition project is working on replacing the existing Novell solution with a new tool to improve this process.

4. IT Security - Segregation of duties in change management

Observation:

It was observed that multiple changes in the transport log from SAP ECC were developed and deployed by the same account user.

Impact:

Unauthorized or unapproved changes can be made by the same user to systems or programs that may affect system and data reliance and functionality.

Recommendation:

City of Toronto should ensure appropriate level of segregation of duties between development and deployment functions within the SAP application. Program changes should not be developed and migrated by the same account. If the recommended segregation of duties cannot be implemented, then we recommend that management enforce monitoring controls over changes where the same account will be used in the development and promotion to ensure that it is abided by the change management process.

Management's response:

Management acknowledges this recommendation. However, the current process does not allow the same account to develop and migrate changes. This happens only in exceptional situations and TSD will work to manage these exceptional situations. In addition, the current process is a two-level approval process for every change that is moved across the SAP landscape, and this helps ensure parties are aware of any proposed change.

5. Property and Liability Claims – Estimates

Observation:

It was noted that the methods and assumptions used by the City's actuary to determine the estimated property and liability claims liability reflect some of the inflation pressure but do not capture the impact consistently across all open claims.

Impact:

Lack of oversight for the assumptions used by the actuary can result in inconsistently application of the assumptions in developing the estimate resulting in an estimate which is less precise.

Recommendation:

The City should implement a process to ensure that the inflation factor applied to future claims payments is reflective of the current economic environment, is in line with the overall borrowing rate of the City and is applied consistently.
The City should identify and define responsibilities associated with the review and approval of the assumptions included in the City's actuary's estimated liability calculations.

Management's response:

Management acknowledges the auditor's findings and will take the recommendation under advisement.

The City's actuary currently undertakes a process to ensure the inflation factor applied to future claim payments. For this year's analysis, the City's actuary considered a margin of 1% as part of their PFAD calculation to account for the uncertainty in the current economic environment. The City's actuary will consider whether to change this margin in the following analysis.

The City's actuary will continue monitoring the loss cost trends and run sensitivity tests to understand the effect of inflation on the claim costs.